

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

REVIEW REPORT
OF
THE STATE LOTTERY COMMISSION OF INDIANA
July 1, 2004 to June 30, 2005

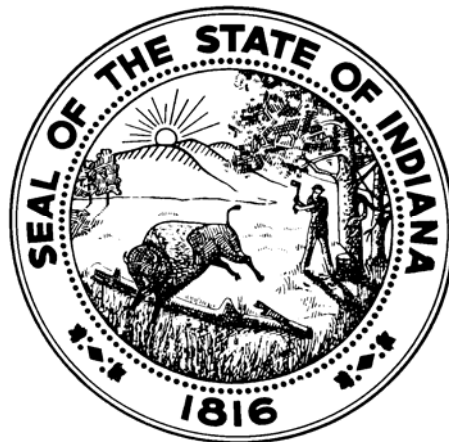


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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	John M. Ross	07-01-04 to 01-07-05
	Vacant	01-08-05 to 01-12-05
	Esther Q. Schneider	01-13-05 to 01-11-09
Chairman of Commission	Michael Gouloff	07-01-04 to 04-01-05
	Jean Northenor	04-01-05 to 06-30-06



STATE OF INDIANA

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE STATE LOTTERY COMMISSION OF INDIANA

We have reviewed the compliance with laws and regulation of the State Lottery Commission of Indiana for the period of July 1, 2004, to June 30, 2005. The State Lottery Commission of Indiana's management is responsible for the compliance with laws and regulations.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

The financial statements of the State Lottery Commission of Indiana for the period of July 1, 2004, to June 30, 2005, were audited by other auditors. This financial statement report is on file in our office as a public record.

Based on our review, nothing came to our attention that caused us to believe that the laws and regulations of The State Lottery Commission of Indiana are not in all material respects in conformity with the criteria set forth in the Indiana Code and policies and procedures established by The State Lottery Commission of Indiana except as stated in the review comments.

STATE BOARD OF ACCOUNTS

December 21, 2005

THE STATE LOTTERY COMMISSION OF INDIANA
REVIEW COMMENTS
JUNE 30, 2005

CERTIFIED REPORT NOT FILED

The Commission did not file a certified report of compensation of officers and employees with the State Board of Accounts.

IC 5-11-13-1 states in part: "Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

NEW RETAILER EVALUATION FORM

The Lottery Commission does not use the required evaluation form to process new retailer applications.

As stated in Lottery Commission's Licensing Supervisor Procedure 40.6.2: ". . . the evaluation form must have been received and approved by the Director of Sales."

SYSTEM OF INTERNAL AUDITS

During fiscal year 2005 the Commission did not perform functions of an internal audit. Beginning in fiscal year 2006, the Commission hired a new internal auditor and functions are now being performed. An audit program is in the process of being established.

IC 4-30-3-7 states in part: "The commission shall adopt rules under IC 4-22-2 governing the establishment, implementation, and operation of the lottery, including the following . . . (11) A system of internal audits . . ."

THE STATE LOTTERY COMMISSION OF INDIANA
EXIT CONFERENCE

The contents of this report were discussed on January 19, 2006, with Esther Q. Schneider, Director; W. Edward Benton, Chief Financial Officer; and Brian L. Slavens, Internal Auditor. The official response has been made a part of this report and may be found on pages 6 and 7.

The contents of this report were discussed by phone on January 23, 2006, with John M. Ross, prior Director. The official response has been made a part of this report and may be found on page 8.

HOOSIER LOTTERY

January 25, 2006

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, IN 46204-2738

Re: State Lottery Commission of Indiana
Official Response

Dear Sir/Madam:

The State Lottery Commission of Indiana (Hoosier Lottery) has received our review comments as a result of an audit performed by your agency for the period covering July 1, 2004 to June 30, 2005 (Fiscal Year 2005). We wish to file an official response to the review comments with your final report. Please find our responses to your agency's comments below:

State Board of Accounts Comment #1

"The Commission did not file a certified report of compensation of officers and employees (Form 100-R or its equivalent) with the State Board of Accounts.

IC 5-11-13-1 states, in part: 'Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state... shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents... and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts.'"

Hoosier Lottery Response

Management at the Hoosier Lottery agrees with the above comment. Management will file the report with the State Board of Accounts on January 27, 2006 and will ensure the report is filed in subsequent years.

201 S. Capitol Ave., Suite 1100
Indianapolis, IN 46225 • (317) 264-4800
www.Hoosierlottery.com

State Board of Accounts Comment #2

"The Lottery Commission does not use the required evaluation form to process new retailer applications.

As stated in Lottery Commission's Licensing Supervisor Procedure #40.6.2: "...the evaluation form must have been received and approved by the Director of Sales."

Hoosier Lottery Response

Management at the Hoosier Lottery agrees with the above comment. Starting in fiscal year 2006, Management is utilizing the required evaluation forms and they are being approved by the Director of Sales before a retailer becomes active in accordance with the Licensing Supervisor Procedure #40.6.2.

State Board of Accounts Comment #3

"Through fiscal year 2005, the commission did not perform functions of an internal audit. Beginning in fiscal year 2006, the commission hired a new internal auditor and functions are now being performed. An audit program is the process of being established.

IC 4-30-3-7 states in part: "The commission shall adopt rules under IC 4-22-2 governing the establishment, implementation, and operation of the lottery, including the following... (11) A system of internal audits... *As added by Public Law 341-1989(ss), SEC.1.*"

Hoosier Lottery Response

Management at the Hoosier Lottery acknowledges that no audits were performed by the internal auditor employed during Fiscal Year 2005. The previous internal auditor resigned in March of 2005. A new internal auditor was hired in July 2005 and has performed various audits and reviews since his date of hire and continues to perform these tasks in accordance with Indiana Code.

If you have any questions regarding any of the above matters, please call me at 264-4961.

Sincerely,



W. Edward Benton
Chief Financial Officer

WHITHAM, HEBENSTREIT & ZUBEK, LLP

ATTORNEYS AT LAW

Larry F. Whitham
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S. Gregory Zubeck

Associate
Eric N. Engebretson

Of Counsel
John M. Ross
David L. Carter

Registered Paralegal
Edna M. Wallace R.P.

January 23, 2006

Mr. Bruce Hartman
State Board of Accounts
302 West Washington, Room E418
Indianapolis, IN 46204

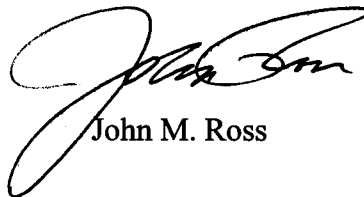
RE: FY 2005 Review Report of State Lottery Commission of Indiana

Dear Mr. Hartman:

Thank you for providing me with a copy of the FY 2005 Review Report of the State Lottery Commission of Indiana. I have been advised by Beth Kelley of your office that I am entitled to tender an official response. Accordingly, I submit the following in response to the Review Comment entitled "System of Internal Audits" set forth on the last page of your report:

Through the first six (6) months of fiscal year 2005, the Commission did employ an internal auditor who functioned effectively in designing, implementing and reviewing internal procedures and controls for overall lottery operations.

Sincerely,



John M. Ross

JMR/lh